

November 17, 2003

D.T.E. 03-88

Investigation by the Department of Telecommunications and Energy on its Own Motion,  
pursuant to G.L. c. 164 §§ 1A(a), 1B(d), 94; and 220 C.M.R. § 11.04, into the Costs that  
Should Be Included in Default Service Rates.

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ORDER OPENING INVESTIGATION

## I. INTRODUCTION

On June 21, 2002, the Department of Telecommunications and Energy (“Department”) opened an investigation into all aspects of the provision of default service to ensure that it is compatible with the development of an efficient competitive market and to ensure that the benefits of a competitive market are available to all Massachusetts consumers at the end of the standard offer service transition period.<sup>1</sup> Procurement of Default Service, D.T.E. 02-40, at 1 (2002). On April 24, 2003, the Department issued an Order in that investigation that addressed, among other things, the cost components that should be included in the calculation of default service rates. See D.T.E. 02-40-B at 8-21 (2003). The Department identified the types of costs that should be included in default service rates, and announced that the Department would open an investigation to determine the amount of these costs incurred by each distribution company. Id. at 15-21. Consistent with the Department’s findings in D.T.E. 02-40-B, and pursuant to G.L. c. 164, §§ 1A(a), 1B(d), and 94, and 220 C.M.R. § 11.04(9)(c), the Department opens this investigation to determine the level of costs incurred by Boston Edison Company (“BEC”), Cambridge Electric Light Company (“Cambridge”), and Commonwealth Electric Company (“ComElectric”) (together, “NSTAR Electric”); Fitchburg Gas and Electric Light Company (“Fitchburg”); Massachusetts Electric

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<sup>1</sup> “Default service,” as the term is used in the Electric Restructuring Act, denotes the provision of electricity to those consumers who do not receive generation service either from an electric distribution company under standard offer service or from a competitive supplier. G.L. c. 164, § 1B(d); 220 C.M.R. § 11.04(9)(c).

Company and Nantucket Electric Company (together, “MECo”); and Western Massachusetts Electric Company (“WMECo”) that should be included in their default service rates.

## II. TYPES OF COSTS TO BE INCLUDED IN DEFAULT SERVICE RATES

### A. Introduction

In D.T.E. 02-40-B at 15, the Department stated that “[d]efault service may serve as a barrier to competition as long as competitive suppliers must recover all of their costs through the prices they charge customers, while distribution companies are able to recover some of their default service-related costs through their distribution base rates.”

See G.L. c. 164, § 1A(a). In identifying the types of costs to include in default service rates, the Department distinguished between wholesale-related and retail-related costs.

D.T.E. 02-40-B at 15.

### B. Wholesale costs

Wholesale-related costs are costs associated with a distribution company’s interaction with the wholesale market to procure default service supply, including the wholesale supply costs that are paid to the default service suppliers, as well as the administrative costs associated with the procurement of the wholesale supply. Id. at 15-16. Procurement-related wholesale costs are associated with (1) the design and implementation of the competitive bidding process, including the evaluation of supplier bids and contract negotiations, and (2) the ongoing administration and execution of contracts with suppliers, including accounting activities necessary to track payments made to suppliers. The Department concluded that, because distribution companies incur these costs solely because of their obligation to provide default

service to their customers (i.e., they would not incur these costs if they no longer had the obligation to provide default service), procurement-related wholesale costs should be included in the calculation of default service rates. Id.

C. Retail Costs

1. Introduction

In identifying the types of retail costs to include in default service rates, the Department distinguished between (1) “direct” retail costs that distribution companies incur strictly on behalf of their default service customers, and (2) “indirect” retail costs associated with services and activities that distribution companies provide not only to their default service customers, but also to their standard offer service and competitive supply customers. Id. at 15-16.

2. Direct Retail Costs

Direct retail costs are costs that a distribution company incurs strictly on behalf of its default service customers. Direct retail costs are associated with: (1) unrecovered bad debt; (2) compliance with the Department’s default service regulatory requirements, including required communications with its default service customers pursuant to 220 C.M.R. § 11.06; and (3) compliance with the Massachusetts Renewable Energy Portfolio Standard, 225 C.M.R. § 14.00 et seq. (“RPS”). The Department concluded that, because distribution companies incur these costs solely because of their obligation to provide default service to their customers (i.e., they would not incur these costs if they no longer had the obligation to provide default service), direct retail costs should be included in the calculation of default service rates. Id. at 17.

### 3. Indirect Retail Costs

Indirect retail costs are costs associated with services and activities that a distribution company provides to all of its customers alike -- default service, standard offer service, and competitive supply. Indirect retail costs are associated with the provision of customer service and billing to default service customers, and the reporting of default service customers' load to the Independent System Operator of New England, Inc. The Department concluded that, because distribution companies would continue to provide these services and incur these costs if it no longer had the obligation to provide default service to its customers, these services are related to distribution service, rather than default service, and thus, the associated costs should not be included in the calculation of default service prices.<sup>2</sup> Id.

### III. DISTRIBUTION COMPANY FILING OF COSTS

The Department stated that it would open separate proceedings for each distribution company to determine (1) the amount of costs to be transferred from base rates to default service rates, and (2) the appropriate adjustment to be applied to each rate class' distribution base rates. D.T.E. 02-40-B at 20. Accordingly, the Department directs each of the distribution companies to submit a filing, no later than six weeks from the date of this Order, that: (1) identifies its wholesale-related and direct retail-related default service costs, based on the most recent twelve-month period for which such cost data are available; (2) allocates those

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<sup>2</sup> Viewed from a different perspective, if a default service customer were to switch to a competitive supplier, the customer would continue to receive the same level of customer service, billing, and load reporting services from the distribution company. Id. at 17.

costs to its default service customer classes on a per kilowatt-hour (“KWH”) basis; and (3) calculates adjustments to its distribution base rates based on a per-KWH allocation to each rate class of the identified default service costs. As described above, each company must separate its wholesale-related costs into those costs associated with (1) the design and implementation of the solicitation process, and (2) the ongoing administration and execution of default service supply contracts. Similarly, each company must separate its direct retail costs into those costs associated with (1) unrecovered bad debt (see Fitchburg Gas and Electric Light Company, D.T.E. 02-24/25, at 162-171 (2002)), (2) compliance with the Department’s default service regulatory requirements, and (3) compliance with RPS. Each company’s filing should include pre-filed testimony explaining, with full supporting documentation, the identified costs, the proposed cost allocation, and the proposed base rate adjustments. Each proceeding will be docketed as follows: BECo, D.T.E. 03-88A; Cambridge, D.T.E. 03-88B; ComElectric, D.T.E. 03-88C; Fitchburg, D.T.E. 03-88D; MECo, D.T.E. 03-88E; and WMECo, D.T.E. 03-88F.

#### IV. ORDER

Accordingly, the Department

VOTES: To open separate investigations into the level of costs incurred by Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, Fitchburg Gas and Electric Light Company, Massachusetts Electric Company and Nantucket Electric Company, and Western Massachusetts Electric Company that should be included in their default service prices; and it is

ORDERED: That Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, Fitchburg Gas and Electric Light Company, Massachusetts Electric Company and Nantucket Electric Company, and Western Massachusetts Electric Company shall follow all directives in this Order; and it is

FURTHER ORDERED: That the Secretary of the Department will serve a copy of this Order by mail on all licensed competitive suppliers and electricity brokers and to the distribution list in Procurement of Default Service, D.T.E. 02-40 (2003).

By Order of the Department,

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Paul G. Afonso, Chairman

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James Connelly, Commissioner

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W. Robert Keating, Commissioner

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Eugene J. Sullivan, Jr., Commissioner

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Deirdre K. Manning, Commissioner